

The Anatomy of Raising Capital

DC Small Business Development Center
FLOW with Financial Fridays Event

September 22, 2022

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**Office of the Advocate for
Small Business Capital Formation**

Roadmap

-  MEET THE SEC'S SMALL BUSINESS ADVOCACY TEAM
-  HOW DO COMPANIES RAISE CAPITAL FROM INVESTORS?
-  WHO IS RAISING CAPITAL?
-  WHAT ARE THE OBSTACLES TO ACCESSING CAPITAL?
-  EMPOWERING ENTREPRENEURS TO OVERCOME BARRIERS





MEET THE SEC'S SMALL BUSINESS ADVOCACY TEAM



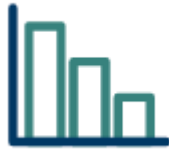


U.S. Securities and Exchange Commission

Three-part Mission



Protect investors



Maintain fair, orderly and efficient markets



Facilitate capital formation





Office of the Advocate for Small Business Capital Formation



Mission: Champion pragmatic solutions so small businesses—from startups to smaller public companies—and their investors can build great companies together using our capital markets.



Special Focus: Identify and address unique capital raising challenges faced by minority-owned, women-owned, rural, and natural disaster-affected small businesses and their investors.





Office of the Advocate for Small Business Capital Formation



How?

- Education and outreach
- Review rules and regulations
- Recommend policy changes to Congress and the Commission



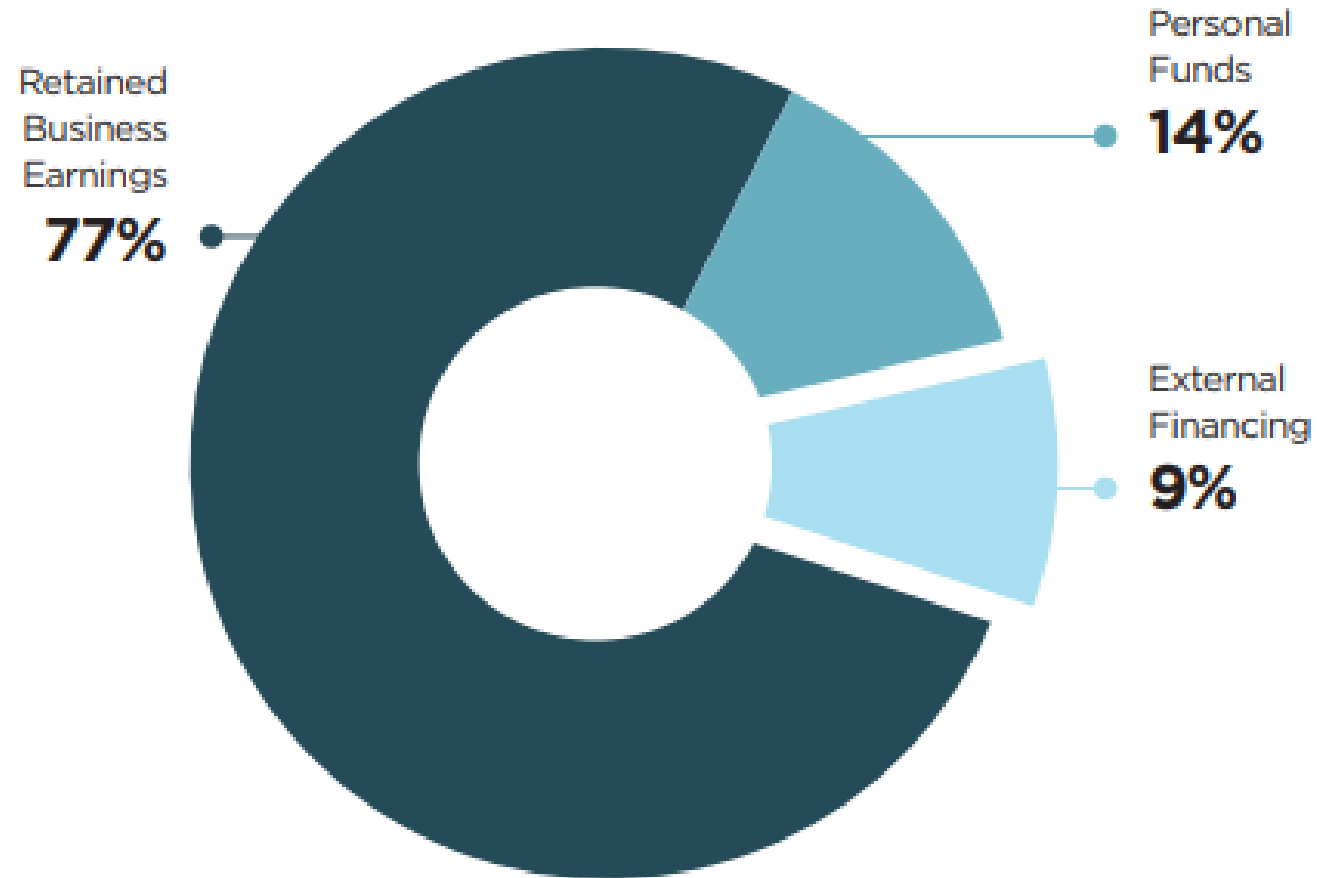


HOW DO COMPANIES RAISE CAPITAL FROM INVESTORS?





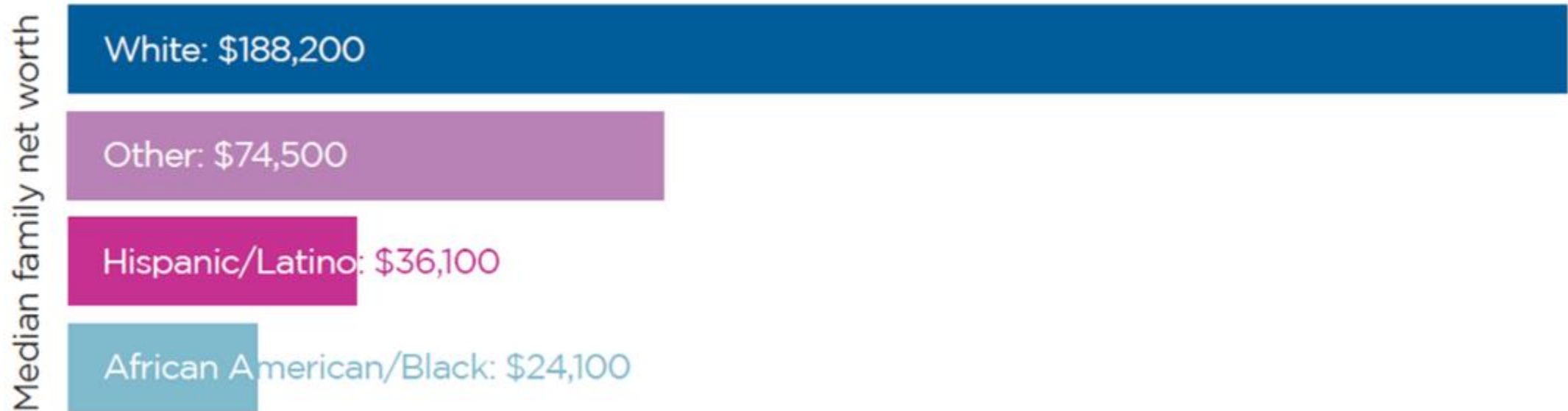
Sources of Capital





Internal Sources of Capital

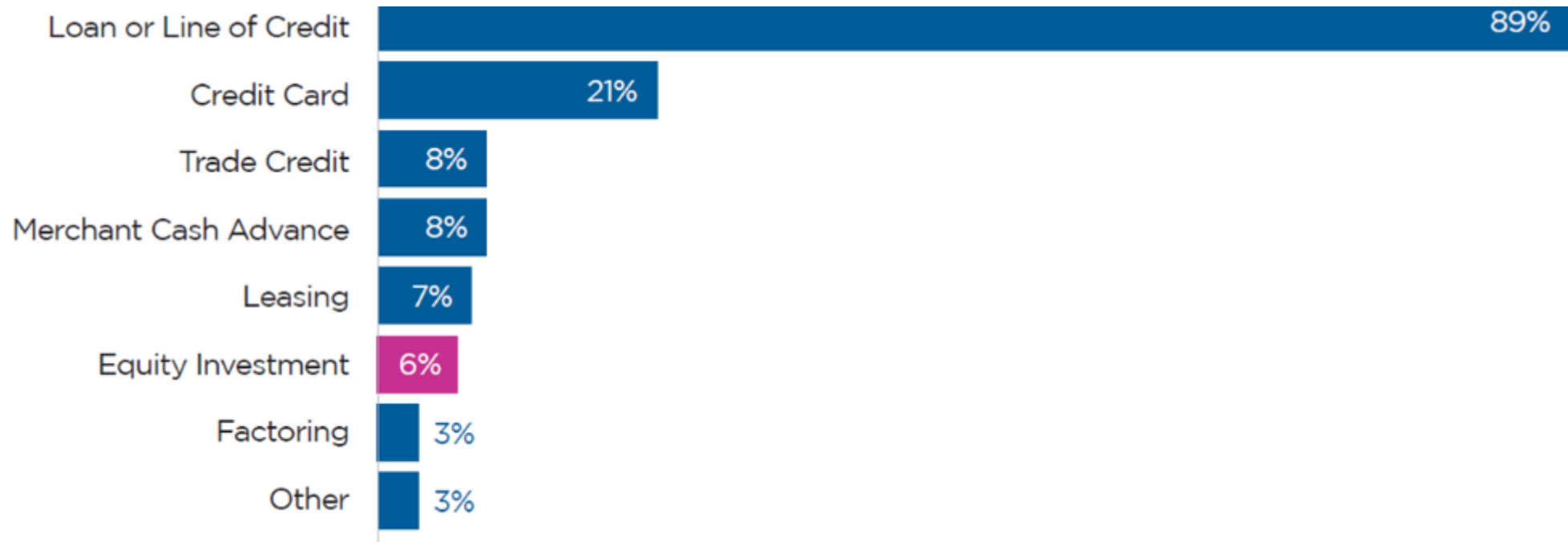
Personal wealth dictates the financial starting line for many entrepreneurs - funding is often more accessible for those who own a home or have family assets.





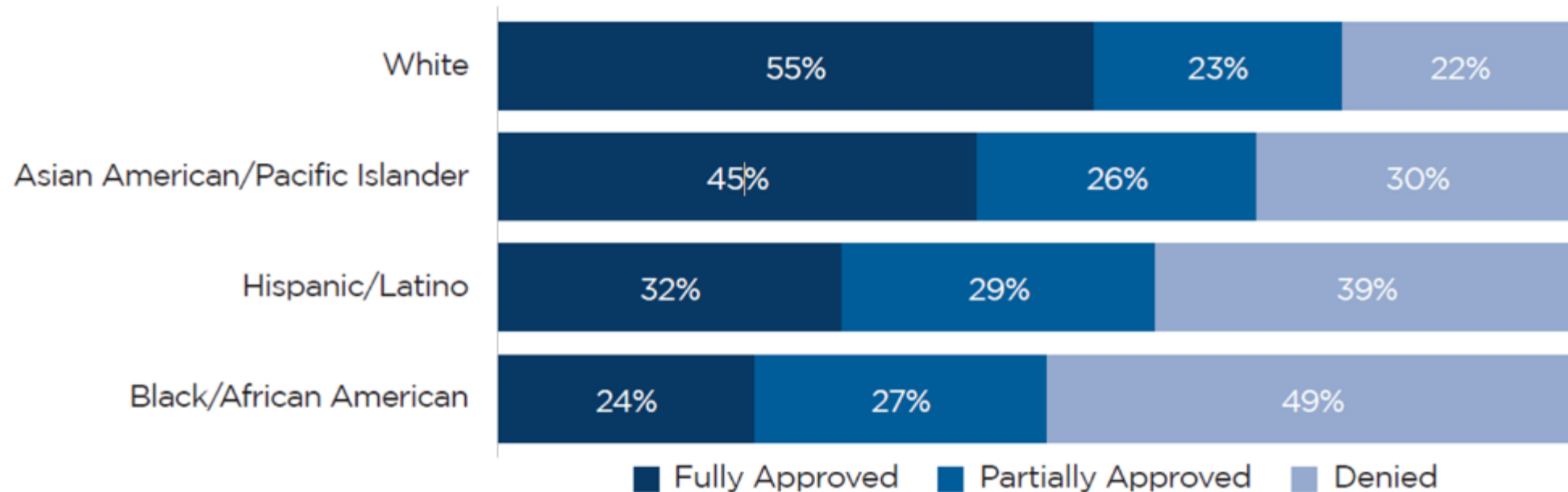
External Sources of Capital

Equity investments remain only a small portion of external capital funding for small businesses.



External Sources of Capital

Minority entrepreneurs face greater challenges accessing debt financing, including loans, lines of credit, and cash advances



Raising Capital From Investors

What does the SEC have to do with my private company?



Under the federal securities laws, every offer and sale of securities, even if to just one person, must either be registered with the SEC or conducted under an exemption from registration.



This is true for companies of all sizes, private and public alike, and includes sales made to anyone, including friends, family, angel investors, and venture capital funds.



Raising Capital From Investors

What is a security?

Federal securities laws broadly define the term “security,” capturing many different forms of investment interests.

Some types of securities that startups often issue include:



Stock



Membership
Interest



Stock
Option



Restricted
Stock



Convertible
Instruments



Debt

Other early-stage capital raising options may not involve a security, such as federal grants, donations, and rewards or pre-purchases of a product.



WHO IS RAISING CAPITAL?



Investments Remain Localized

The distance between lead angel investor and the target company averages



Women Business Owners

Underrepresentation by gender persists.

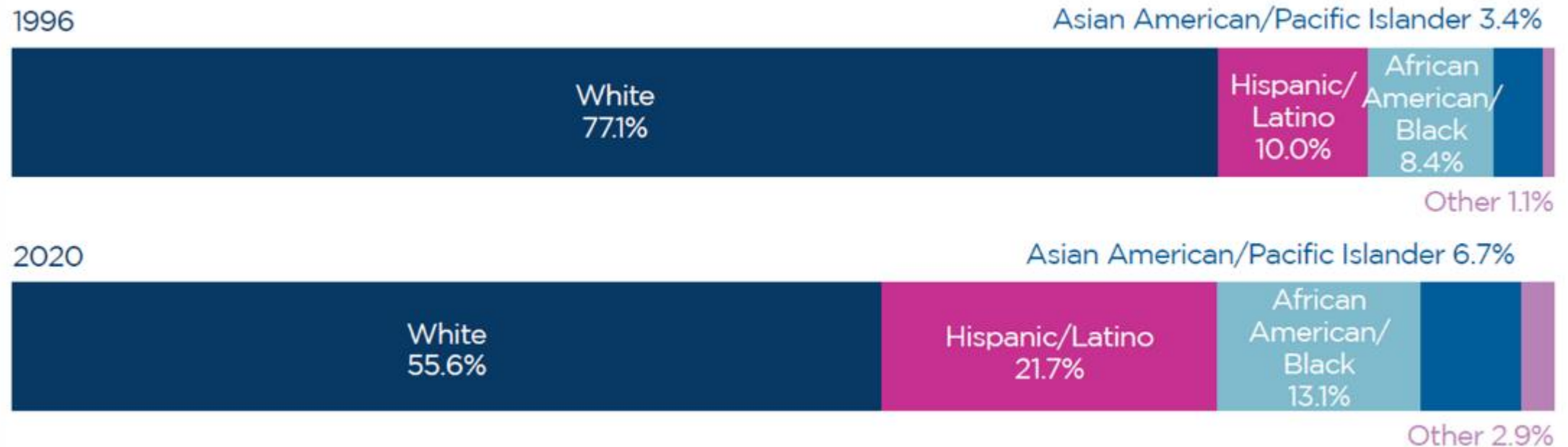


41% of new entrepreneurs in 2020 were women.



Minority Business Owners

Entrepreneurial activity has meaningfully increased across minority groups in the past 15 years.





WHAT ARE THE OBSTACLES TO ACCESSING CAPITAL?



⊗ Capital Needs



Running out of cash and an inability to raise new capital is the **number 1 reason startups fail**



⊗ Networks



1/2 of newer entrepreneurs
report challenges with
networks and connections
compared to 1 in 3 entrepreneurs
with mature businesses.



⊗ Education



1/2 of new entrepreneurs
report challenges with
information, education,
or **knowledge** —
more than **2x**
the rate for entrepreneurs
with mature businesses.





EMPOWERING ENTREPRENEURS TO OVERCOME BARRIERS





Resources and Tools



www.sec.gov/capitalraising



Explore SEC resources to help equip small businesses, from startup to small cap, and their investors with the tools needed to navigate capital raising.

Getting Started: Understanding the Fundamentals



Navigate Your Options

Explore what regulatory pathways you could use to raise capital from investors.



Glossary of Terms

Cut through the jargon and learn the language of capital raising.



Building Blocks

Explore the fundamentals of capital raising.



Capital Raising Video Gallery

Check out these informational videos on the basics of capital raising.



Additional Resources

Find more tools for small businesses and their investors from the SEC and other agencies.





Resources and Tools

>> LEARN MORE

www.sec.gov/capitalraising



Navigating Your Options

When raising capital, a business may not offer or sell [securities](#) unless the offering has been registered with the SEC or falls within an exemption from registration. Each exemption has specific requirements that a company must meet.

This interactive tool can help you navigate the many regulatory pathways to raise capital, based on the criteria that matter most to you. While this tool does not provide legal advice, it can help you better understand your options so that you make informed decisions. Let's get started!

1 of 8

Does your business already exist?

Have you formed your business under applicable state or territorial law and finalized organizational documents (such as bylaws or operating agreements)?



Yes



No



Fund(amental)s

Whether you are looking to a fund for financing or as an investment opportunity or you are forming your own fund, a familiarity with these commonly used terms will help guide your way.

3(c)(1) Fund

A 3(c)(1) fund is a *pooled investment vehicle* that is excluded from the definition of *investment company* in the *Investment Company Act* because it has no more than 100 beneficial owners (or, in the case of a *qualifying venture capital fund*, 250 beneficial owners) and otherwise meets criteria outlined in Section 3(c)(1) of the *Investment Company Act*.



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Resources and Tools

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www.sec.gov/capitalraising



Explore the fundamentals of capital raising with the [Office of the Advocate for Small Business Capital Formation](#).



What pathways are available to raise capital from investors?



What is the role of accredited investors?



What is general solicitation?



How do private funds provide capital to early-stage companies?





Resources and Tools

>> LEARN MORE

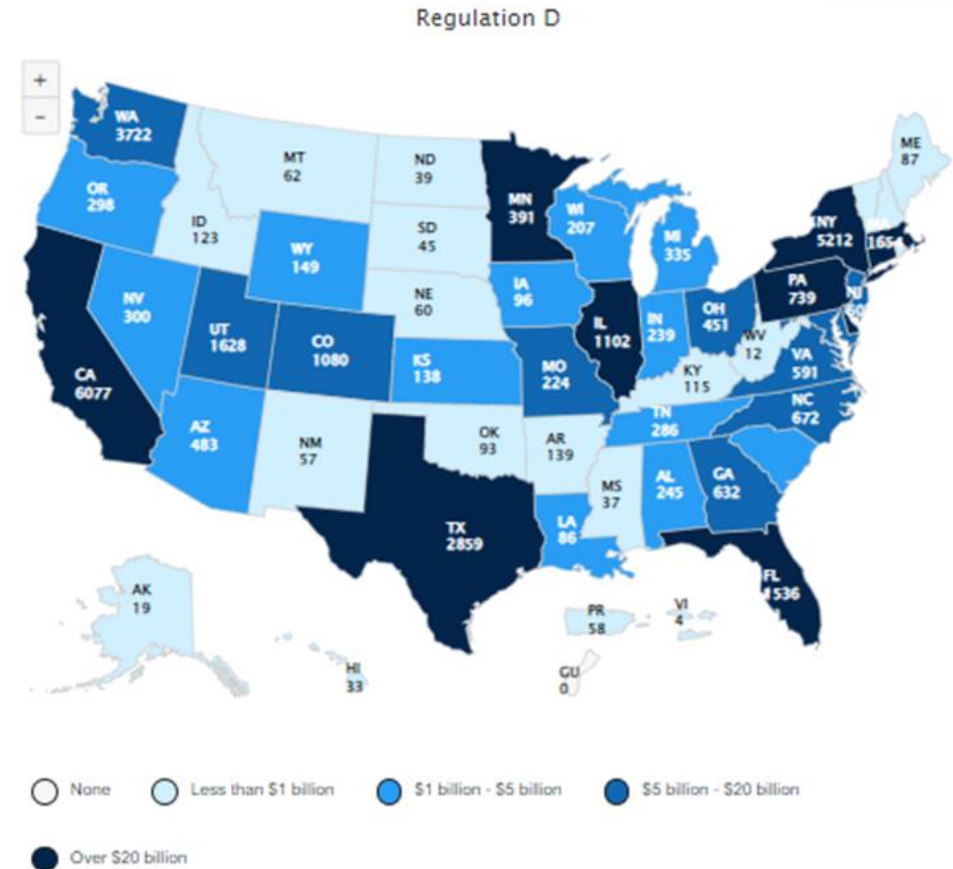
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Capital Trends



Mapping Investment in America: Where are Companies Raising Capital?

[Methodology](#)



WHERE

States

HOW

Regulation D

WHEN

July 2020 to June 2021



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